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KDP: Climate and Cause in a time of Change[4]

> "A bigger company means more responsibility and more opportunity for impact. The creation of Keurig Dr Pepper provided us with a chance to reassess, reprioritize and recommit to areas where we can leverage our bigger size to create even greater positive impact."
>
> —MONIQUE OXENDER, CSO, KEURIG DR PEPPER

At the start of the 2019 new year, Monique Oxender, Chief Sustainability Officer for Keurig Dr Pepper, looked out of her office window in Burlington, Massachusetts as the snow began to fall. While drinking her sustainably sourced Green Mountain Coffee, she reflected on the many challenges that lie ahead, including creating a materiality plan for the newly combined company of Keurig Dr Pepper (KDP). Since 2012, when Oxender first joined what was then Green Mountain Coffee Roasters (GMCR), she had led the company's sustainability efforts, making great progress in reducing GMCR's environmental footprint and enhancing its social impact. GMCR, an independent publicly traded company, had acquired Keurig, the market leader and maker of single serving K-Cup® coffee machines in 2006, later changing the company name to Keurig Green Mountain (KGM) in 2014. In March 2016, KGM was taken private by JAB Holdings, a privately held group focused on long term investments in companies with premium brands, attractive growth and strong cash flow including Jacobs Douwe Egberts, a Netherlands based global coffee and tea company. Then, just over two years later in July of 2018, KGM merged with Dr Pepper Snapple Group (DPSG) to form KDP.

Before the merger, Oxender's organization reported into a variety of functions at GMCR and KGM respectively.[5] This included the global product organization, marketing, research and development, and finally pre-merger with DPSG – residing within the organization's supply chain function. This

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[4] This case was written as the basis for class discussion rather than to illustrate either effective or ineffective handling of an administrative situation
[5] Interview with Ms. Oxender on 5/19/20.

background would prove helpful now that Oxender and her team (See **Exhibit 1**) were tasked with defining the sustainability priorities for KDP. In the newly combined organization, Oxender reported to Corporate Affairs with a governance structure that included the functions most affected by, and thus accountable for, key decisions that impacted the company's sustainability efforts. Oxender noted: "We have a governance committee that meets regularly, that is a subset of our Executive Leadership Team, and includes our officers for corporate affairs, R&D, marketing, supply chain, legal and a finance executive."

By the end of July 2018, KDP had successfully completed its merger (see **Exhibit 2**), with revenues of $11.024B, and was the 7th largest food and beverage company in the U.S., ranking 13th in global beverage companies by revenues (see **Exhibit 3**). [6] However, with this level of scale also came new challenges, most particularly to the firm's sustainability efforts. Pre-merger, KGM had a full sustainability team, an overarching sustainability framework, and a robust set of goals. KGM had also launched its *Brew a Better World* platform in 2009, conducted the company's first materiality assessment under Oxender's leadership in 2012, and annually revisited its sustainability frameworks based on evolving products and industry needs. Furthermore, KGM's focus had predominately been on creating a sustainable supply chain and reducing environmental impact, including the recyclability of the Keurig K-Cup® pod packaging, to ensure that the organization was meeting environmental and social targets. In contrast, DPSG split Corporate Social Responsibility (CSR) duties between Government Affairs and Corporate Affairs, and focused efforts on water efficiency and conservation - given the water usage requirements of manufacturing finished product, public space recycling, and its signature *Let's Play* initiative, which provided kids, families and communities with the funding, equipment, and play spaces to prioritize active play. Unlike KGM, DPSG's first materiality assessment was done by a third-party consultant in 2017, and their recommendations had not yet been implemented at the time of the merger. Six months post-merger, Oxender faced the challenge of leading her team to form a new set of consolidated corporate sustainability goals for KDP, as well as conduct a comprehensive materiality assessment. In order to do so, her team had to consider the interests of various external stakeholder groups – competitors, investors, regulators, and consumers – as well as each company's history, baseline performance and internal values. In the last five years, interest regarding each company's commitment to both environmental and social sustainability had risen among stakeholders, with increased pressure primarily from consumers and shareholders toward sustainability commitments that permeated the entire value chain, along with regulatory changes.

Corporate Sustainability Trends in Packaged Food & Beverage

By 2018, a vast majority of the packaged food and beverage industry had determined that the most important environmental topics for their companies were: water usage, greenhouse gas (GHG) emissions, and waste. On the social side, the most important topics for the food and beverage industry included: health and wellness, supply chain labor conditions, and community philanthropy. Among *consumers*, concerns about sustainability were often expressed by millennials who had been exposed to environmental issues throughout their childhood education,[7] and who favored environmentally friendly products.[8, 9, 10] The development of the organic food market is a good illustration of these concerns. Over the last 10 years, organic food grew 207 percent, from $14 billion in 2005, to $43 billion in 2015, while

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[6] 2018 Keurig Dr Pepper Annual Report https://investors.keurigdrpepper.com/annual-reports. https://investors.keurigdrpepper.com/download/Investor%2BDay%2B3.20.2018.pdf

[7] "Green Generation: Millennials Say Sustainability Is a Shopping Priority." (2015). http://www.nielsen.com/us/en/insights/news/2015/green-generation-millennials-say-sustainability-is-a-shopping-priority.html.

[8] Straughan, Robert D., and James A. Roberts. "Environmental segmentation alternatives: a look at green consumer behavior in the new millennium." Journal of consumer marketing 16, no. 6 (1999): 558-575.

[9] Minton, Ann P., and Randall L. Rose. "The effects of environmental concern on environmentally friendly consumer behavior: An exploratory study." Journal of Business research 40, no. 1 (1997): 37-48.

[10] Gilg, Andrew, Stewart Barr, and Nicholas Ford. "Green consumption or sustainable lifestyles? Identifying the sustainable consumer." Futures 37, no. 6 (2005): 481-504.

the overall food retail market grew just 30 percent.[11] According to a 2012 Nielsen report: "Two thirds (66 percent) of consumers around the world say they prefer to buy products and services from companies that have implemented programs to give back to society.[12] That preference extends to other matters too: they prefer to work for these companies (62 percent), and invest in these companies (59 percent). A smaller share, nearly half (46 percent), say they are willing to pay extra for products and services from these same companies. Indeed, many consumers wanted to know that the products they were consuming were derived from sustainable, ethical sourcing practices. To take advantage of these expanding markets, companies increasingly touted green products and practices. Most grocery stores moved to carrying eco-labeled products, and in 2018 alone, there were more than 460 different eco-labels.[13]

For example, in the coffee industry, Fair Trade certification is a prominent label that ensures that products, from furniture to coffee have been produced by fair trade standards, most particularly focused on fair labor practices by verifying a living wage for certified companies' laborers. By the end of 2016, there were 1,411 Fair Trade-certified producer organizations in 73 countries, representing more than 1.66 million Fair Trade farmers and workers.[14] With respect to coffee, companies began to seek Fair Trade-certified coffee to address the inability of farmers to provide for their families due to the drop in price for coffee beans.[15] GMCR was notably one of the first companies to embrace Fair Trade certification for its coffee. Beginning in 2009, KGM became the largest purchaser of Fair Trade certified coffee globally when purchasing for its own brands and partner brands. As an example of how important this was to the company's branding, in 2012 and 2013, KGM's Green Mountain Coffee brand teamed up with acclaimed musicians Kelly Clarkson, Michael Franti, and Grace Potter on the *Great Coffee, Good Vibes, Pass it On* Fair Trade campaign. This campaign increased consumer awareness of Fair Trade through inspiring videos of the musicians' visits to coffee farms, free concerts upon their return,[16] and other promotions (e.g. coupons, social media postings, and sweepstakes).

Regarding *investors'* attitudes toward sustainability, the last decade had seen the rise of Socially Responsible Investing (SRI), an investment discipline that considers environmental, social, and corporate governance (ESG) criteria to generate long-term competitive financial returns and positive societal impact. According to the U.S. SIF Foundation, as of year-end 2017, more than one out of every four dollars under professional management in the U.S. - $12.0 trillion or more - was invested according to sustainable investing strategies.[17] For these investors, disclosure of corporations' material sustainable impact remained essential, and most sustainability minded investors tended to use two main strategies.

This includes the consideration of environmental, community, and other societal and corporate governance (ESG) criteria in investment analysis and portfolio construction across a range of asset classes. In 2018, the top ESG criterion for money managers was climate change with more than three trillion dollars invested with this area.[18] The second strategy, for those with shares in publicly traded companies, was to file shareholder resolutions that related to sustainability topics. From 2016 through the first half of 2018, more than 200 institutional investors and money managers collectively controllinga total of at least $1.76 trillion in assets filed or co-filed shareholder resolutions on ESG issues.[19] In 2018, the leading issues in shareholder resolutions were corporate political activity, climate change, and labor and equity employment issues.[20]

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[11] "US Organic: State of the Industry," (2016), http://ota.com/sites/default/files/indexed_files/OTA_StateofIndustry_2016.pdf.US Census Bureau, "Total retail and food services sales in the United States from 1992 to 2015 (in trillion U.S. dollars)," (Statista, 2016).

[12] https://www.nielsen.com/us/en/insights/article/2012/the-global-socially-conscious-consumer-2/

[13] Ecolabel Index," (Big Room Inc., 2017).

[14] Delmas, M. A, Lyon, T. P, & Jackson, S. (2019). Using Market Forces for Social Good. In The Nonprofit Sector, A Research Handbook, Third Edition Edited by Walter Powell and Patricia Bromley, Stanford Press, 2019. UCLA: Institute of the Environment and Sustainability. Retrieved from https://escholarship.org/uc/item/0sn9f7z0

[15] Taylor, P. L. (2005). In the market but not of it: Fair trade coffee and forest stewardship council certification as market-based social change. *World development*, *33*(1), 129-147.

[16] https://www.bing.com/videos/search?q=kelly+clarkson+fair+trade+green+mountain&docid=608029049467832210&mid=512058A70AAE1BF35EB3512058A70AAE1BF35EB3&view=detail&FORM=VIRE

[17] https://www.ussif.org/sribasics

[18] https://www.ussif.org/files/2018%20Infographic%20money%20managers(1).pdf

[19] https://www.ussif.org/sribasics

Food *suppliers* are increasingly considered in ESG measures, for their potential to encourage or restrain a transition toward sustainable production in the food and beverage industry.[21] As such, the supply chain of a corporation has come to play an increasingly prominent role in a corporation's reputation; managing a firm's supply chain is shifting from an operational framing to more of a strategic and competitive investment, as more and more companies focus on increasing supply-chain transparency.[22]

However, the shift toward sustainable practices has been slow and imperfect, food and beverage firms' supply chains can have significant environmental impact when accounting for a "ripple effect": "McKinsey, a consultancy, estimates that more than 90% of companies' environmental impact comes from their supply chains. Retail firms' supply chains typically account for 11.5 times each company's impact. For personal and household goods companies, that figure is 19 times, and for food and beverage companies, it is 24 times."[23] The main environmental concern with companies' supply chains is carbon emissions; 65-95% of a company's total carbon emissions originate in their supply chain.[24] Another primary issue is energy consumption; fruits and vegetables in America travel between 1,500 and 2,000 miles before purchase, an increase of 20% over the last two decades.[25] Other important issues include water pollution and toxic runoff, ecosystem destruction, and resource mismanagement.[26] Furthermore, while supply chains pose a threat to the environment, the environment poses a threat to supply chains: increased flooding, storm severity, and wildfires threaten production at all levels.[27] This in turn creates food and beverage insecurity, volatility in commodity prices, and challenges business growth.[28] Additionally, the management of the supply chain in the food and beverage industry is complex because of its diversity and global scope.

As to the social issues, the treatment of workers at various levels of the supply chain poses another key concern for companies, as workers can be exposed to harsh chemicals, long work hours, poor pay, and other adverse working conditions.[29] For example, the coffee supply chain includes many coffee farmers that live in developing countries, often in remote areas, without access to healthcare or many options for employment. Most small holder farmers have just one or two hectares (about 2.471 acres) of land to harvest their coffee beans. Environmental and social concerns are not decoupled. Changes in climate can directly impact crop yields, which in turns negatively impacts a farmers' ability to earn a living wage. While no one solution can guarantee that production remains sustainable for the millions of coffee farmers, it's also to the benefit of companies to work with farmers in garnering high crop yields, ensuring that companies then have steady access to reasonably priced crops and a multi-generational commitment to farming.[30]

Regulations are also evolving to take into account sustainability concerns. These include the development of climate change regulations, various state and local recycling initiatives, and efforts in some localities to apply additional taxes to sugary drinks. It is important to note that there are many legal requirements that apply to the food and beverage industry, as it is crucial for the government to ensure the safety of food products in the marketplace. Food legislation aims at protecting the health of the consumer, protecting the consumer from fraud, and ensuring the essential quality and wholesomeness of foods. In fact, the U.S. has several climate and environment related regulations that impact the food and beverage industry in their production and sale. For example, the Federal Insecticide, Fungicide and Rodenticide Act (FIFRA), 7 U.S.C. §§ 136 regulates the sale and use of pesticides such that all pesticides sold or used in the country must be approved by the EPA.[31, 32]

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20 La https://www.ussif.org/files/2018%20Infographic%20overview%20(1).pdf
21 https://www.sciencedirect.com/topics/agricultural-and-biological-sciences/food-supply-chain
22 http://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.574.7440&rep=rep1&type=pdf
23 https://perspectives.eiu.com/sustainability/sustainability-missing-link
24 https://perspectives.eiu.com/sites/default/files/llamasoft_report_-_report_digital_2_2_0.pdf
25 https://citeseerx.ist.psu.edu/viewdoc/download?doi=10.1.1.574.7440&rep=rep1&type=pdf
26 https://www.morethanshipping.com/supply-chain-and-its-environmental-impact/
27 https://www.foodlogistics.com/sustainability/article/21069363/sustainability-trends-in-the-food-supply-chain
28 http://www.sd-commission.org.uk/data/files/publications/FoodPolicy10_Report_final_w.pdf
29 https://hbr.org/2020/03/a-more-sustainable-supply-chain
30 https://www.inboundlogistics.com/cms/article/spilling-the-beans-on-the-coffee-supply-chain/

California is considered to be one of the frontrunners when it comes to environmental legislations and regulations.[33] Regarding climate regulation, most of the action in the U.S. is in California, where State law AB32 requires state emissions to return to 1990 levels by 2020,[34] and a cap and trade system was implemented with the intention of reducing carbon emissions through 2030.[35] Businesses regulated through the cap and trade system make up about 85% of California's greenhouse gas emissions; many of these are agricultural firms which incurred new costs as they transitioned to more carbon efficient equipment, manure, and soil.[36,37] Senate Bill 1383, or the Short-Lived Climate Pollutant Reduction Bill, also impacts agricultural firms as it requires the reduction of short-lived climate pollutants like methane by 40-50% below 2013 levels by 2030.[38]

Waste is increasingly regulated at the international, state and city levels. Plastic bags have been banned in two states (i.e., California, Hawaii) as well as in many cities, with several other states considering such bans for 2019.[39] In addition, numerous countries and local governments have implemented Deposit-Refund Systems (DRS) on plastic beverage packaging to curb plastic waste. Most cities have recycling programs that are able to recycle PET/PETE (PolyEthylene TerEphthalate), HDPE (High Density PolyEthylene), along with other types of plastics. However, recyclability is often difficult to establish for every locality, as it depends on what local materials recovery facilities (MRFs) are able to recycle. While KDP does not currently have significant operations in Europe, regulatory development there shows more attention toward packaging recycling. The European Union issued a directive regarding packaging, which states that at least 60% of packages distributed in member countries must be recoverable.

Regarding the caloric intake of food and beverages, any claims on health or caloric intake must be accurate as the industry is governed by the Food and Drug Administration (FDA) in the U.S. Research also shows that sugary drinks are one of the major determinants of obesity and diabetes, and attempts have been made to alter the consumption of soda – as when New York banned (for a period of time) large sodas. Several other states within the U.S. have already instituted soda bans in schools or in some large universities (e.g. the University of California, the city of San Francisco).[40] In fact, in early 2010, beverage companies, including The Coca Cola Company, PepsiCo and Dr Pepper Snapple Group (now Keurig Dr Pepper) and its industry association, the American Beverage Association, implemented National School Beverage Guidelines that eliminated full-calorie sodas in school and has reduced beverage calories shipped to schools by 88 percent since 2004.

The role of *non-governmental organizations* (NGOs) in the U.S. has changed significantly over the past 20 years as they have moved from a posture of adversarial relations with corporations to one characterized by professionalism and cooperation. For example, NGOs now routinely engage in strategic collaborations with corporations to help them reduce their environmental impact. The Nature Conservancy (TNC), one of the largest environmental nonprofits by assets and revenue in the Americas,[41] as well as the Environmental Defense Fund (EDF), another of the world's leading environmental organizations, are good examples of this. TNC centers its priorities around climate change, land and water protection, food and water sustainability, and healthy cities.[42] It has established several partnerships with companies in the food and beverage industry. For example, in 2015, PepsiCo and TNC launched "Recycle

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[31] https://calepa.ca.gov/wp-content/uploads/sites/6/2016/10/CUPA-Documents-Inspection-OvrviwEnvlaw.pdf
[32] https://www.epa.gov/laws-regulations/summary-federal-insecticide-fungicide-and-rodenticide-act
[33] https://www.edf.org/climate/california-leads-fight-curb-climate-change
[34] https://www.c2es.org/site/assets/uploads/2017/09/summary-californias-extension-its-cap-trade-program.pdf
[35] https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201720180AB398
[36] https://www.c2es.org/content/california-cap-and-trade/
[37] https://www.agcouncil.org/climate-change
[38] https://www.law.berkeley.edu/research/clee/research/climate/climate-policy-dashboard/#:~:text=California%20Climate%20Policies&text=Landmark%20legislation%20requiring%20California%20to,program)%20to%20achieve%20this%20goal.
[39] https://www.ncsl.org/research/environment-and-natural-resources/plastic-bag-legislation.aspx
[40] https://www.advisory.com/daily-briefing/2019/11/14/sugary-drinks
[41] https://www.forbes.com/lists/list-directory/#6a24bd4db274
[42] https://www.nature.org/en-us/about-us/who-we-are/accountability/annual-report/2018-annual-report/

for Nature," a five-year partnership to place recycling bins at gas stations and convenience stores across the U.S. Both KGM and DPSG had long-term relationships with TNC on water stewardship at the time of the merger in 2018. EDF also places climate and energy as top priorities, along with ecosystems, oceans and health. EDF works with a wide range of corporate partners to identify the biggest opportunities for climate pollution reduction.[43] For example, in 2017, EDF started a collaboration with Smithfield, Campbell Soup Company, and Land O'Lakes on a platform aimed to enroll 20 million acres in sustainable farming practices by 2025.[44]

KDP's *competitors and peers* (see **Exhibits 3 and 4**) span the packaged beverage and food industry with large global corporations such as Coca-Cola, PepsiCo, Nestlé, Campbell Soup, General Mills, and Unilever. While competitors' environmental goals largely align under the topics of *water, GHG emissions, and waste*, priorities differ between the large beverage and food companies (for a quick overview of the environmental issues considered most material by competitors, see **Exhibit 5**). For example, Coca-Cola was a major driver in addressing the beverage industry's water use and conservation goals, and other competitors quickly followed suit. By 2017, Coca-Cola had already achieved their 2020 goal of returning 100% of water used globally to communities/nature and were on track to reduce water per liter of product by 25% compared to Coca-Cola's baseline. While it is difficult to compare goals across companies given the differences in their product lines, intensity goals did range from a 15% to 25% water reduction per unit produced. On the other hand, emissions goals were being driven by packaged foods, but beverages were falling behind on achieving their emissions reductions goals. General Mills had already achieved a 20% reduction of metric tons of C02e per ton of production, and Unilever and Mars set commitments to carbon neutrality by 2030 and 2040, respectively.

In comparison to water conservation, the environmental topic of *waste* remains complex. KDP, as well as most of its competitors, had set ambitious goals to eliminate 100% of manufacturing waste to landfill, but far fewer had set goals for packaging. Plastic pollution was also emerging as a pressing environmental issue. In January 2016, the World Economic Forum and the Ellen MacArthur Foundation, with analytical support from McKinsey & Company, launched the report: *The New Plastics Economy – Rethinking the future of plastics at the World Economic Forum in Davos.* The report was produced as part of a multi- industry, global initiative to accelerate business-driven innovations including corporations such as Danone, Nestlé, Coca-Cola and Unilever. This report showed that most plastic packaging is used only once, and that 95% of the value of plastic packaging material, worth $80-120 billion (USD) annually, is therefore lost to the economy. The 2016 and subsequent 2017 *New Plastics Economy* reports captured worldwide headlines and became global points of reference, giving rise to newfound commitments by larger companies to the circular economy.[45] Coca-Cola again led much of the dialogue around waste reduction with its *World Without Waste* campaign, launched in 2018 with a goal of recovering all Coca- Cola packaging for recycling (globally) by 2025.

Food and beverage companies' social sustainability efforts were centered primarily around health and wellness. Due to the increased media interest in health and the growing number of local taxes on sugary drinks, there was a growing consumer awareness of the adverse health effects of high sugar content. In response, The Coca-Cola Company, PepsiCo, and DPSG teamed up to launch the *Balance Calories Initiative* (BCI) in 2014, in an effort to reduce the number of calories Americans consume from beverages. In its latest report, the independent evaluator responsible for measurement shared that since the start of BCI, beverage calories per person have decreased 5.6%, with annual reductions having accelerated over each of the last three years.[46]

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[43] https://www.edf.org/climate
[44] https://www.landolakesinc.com/Members/Member-News/April-2017/land-o-lakes-wal-mart-sustainability
[45] https://www.ellenmacarthurfoundation.org/circular-economy/concept
[46] IBIS Global Soft Drink and Bottled Water Manufacturing (2019).
https://www.healthiergeneration.org/sites/default/files/documents/20200925/bb4718c7/BCI%202019%20National%20Progress%20Report%20%2809%2025%202020%29%20FINAL%20AHG.pdf

The Evolution of Keurig Dr Pepper

Keurig Green Mountain

In order to examine the challenges KDP faced in creating a cohesive sustainability plan for the newly merged company, it's helpful to explore the company origins of KGM and DPSG, beginning with KGM. KGM had its roots in Green Mountain Coffee Roasters, which was originally founded in 1981 by Robert ("Bob") Stiller: "I was not much of a coffee drinker at the time and one day I had some really great coffee. There was a cafe that had just opened up in Vermont. I had a ski house up there. And this coffee was great, a different product from what coffee normally was – really good fresh-roasted coffee. And I knew there was a huge market for this because people just didn't know what great coffee could taste like."[47] After Stiller met spiritual guru Deepak Chopra, Stiller began to think more deeply about the impact his company had on the environment, causing a shift in GMCR's strategy and resulting in 5% of annual pre-tax profits being donated to social and environmental issues for a number of years. In 1997, Green Mountain Coffee Roasters became the first coffee company to offer single-serve coffee in a K-Cup® pod format for use in Keurig® machines. In 2006, Green Mountain Coffee Roasters acquired Keurig, Inc. In 2014, the combined publicly traded company then became known as Keurig Green Mountain (KGM).

In the U.S., KGM was also the leader in single serve coffee and over time had dominate market share of single serve brewers in the home after starting sales and distribution in offices across North America. They also had extensive license agreements for their K-Cup® pods, creating an expansive partner ecosystem with name brand partners including Dunkin', Folgers, Newman's Own Organics, Peet's and Starbucks, allowing the company to offer more than 500 varieties of coffee, tea and cocoa beverages. According to SEC filings, Walmart and Costco were the two primary distribution outlets for KGM's coffee makers and K-Cup® pods. In March 2016, KGM was then taken private through an acquisition by an investor group led by JAB Holding Company.[49]

Dr Pepper Snapple Group

DPSG was a company built through years of strategic acquisitions integrating beverage brands with bottling and distribution assets. DPSG was spun-off as a publicly traded company from Cadbury Schweppes plc in 2008 when Cadbury separated its Americas Beverages business from its global confectionery business and its other beverages business (located principally in Australia). DPSG had a portfolio of well-known beverage brands in North America, including carbonated soft drink brands such as Dr Pepper, Canada Dry, 7UP, A&W Root Beer, Sunkist, Squirt, RC Cola, and Vernors, as well as non-soda brands such as Snapple, Mott's, Clamato, Hawaiian Punch, Mrs. T mixers, and Bai.[50] DPSG's unique and powerful sales and distribution model included company-owned direct store delivery (DSD) operations that covered much of the U.S. as well as independent bottlers, ensuring national distribution of its owned and allied brands. Additional distribution strength was provided by licensing agreements with Coca-Cola and PepsiCo affiliated bottlers that allowed certain DPSG brands to be manufactured and distributed by these partners in defined territories. Finally, a well-established fountain foodservice business had built Dr Pepper into the most available fountain beverage brand in the U.S. DPSG's headquarters was in Plano, Texas.

Keurig Dr Pepper

In 2018, the KGM and DPSG merger was orchestrated by KGM's parent company, JAB Holding Company, bringing the then private KGM once again to publicly traded company status under the new corporate name Keurig Dr Pepper (KDP).[51] At that time, JAB owned several other coffee companies

[47] https://mgross.com/writing/books/my-generation/bonus-chapters/bob-stiller-ez-wider-maker-green-mountain-coffee-roaster-spiritual-seeker/
[48] The KOLD product was later discontinued in 2016.
[49] KGM 9/2015 10k.
[50] DPS acquired Bai in November 2016.

including Peet's and Caribou Coffee. While Keurig was the leader in the U.S. single serve coffee market, the overall growth in single served brewers had slowed.[52] With an $18 billion cash payout to DPSG stockholders as part of the transaction, JAB and its minority partners then owned 72.5% of the combined company, and KDP was now a new challenger in the North American beverage market, and a major competitor to Coca-Cola and PepsiCo. In addition, the company now had a broad ecosystem of coffee and cold beverage partners (see **Exhibit 6)** in its portfolio of owned brands under the merged companies of KGM and DPSG. JAB also acquired Krispy Kreme, Panera, Au Bon Pain, and Pret a Manger in an effort to diversify and expand its footprint in the food, in addition to the beverage, industry.

From an operational standpoint, the merger's primary benefit was unlocking access to a network of distribution channels between both companies in order to expand its reach, including direct-store delivery, warehouse direct, fountain foodservice, e-commerce and away-from-home such as workplaces.[53] In addition to expanding its reach, KDP estimated $600M in synergies over the three-year period post-merger, captured through integrated warehousing and transportation, direct procurement savings on overlapping ingredients, purchasing at scale on indirect spend categories, and optimization of duplicate processes.[54] Now, the two largest segments of the combined company, packaged beverages and coffee systems, were about equal contributors to revenue in 2018, with 55% of the revenue in coffee systems, 32% in packaged beverages, 9% in beverage concentrates, and 3% in Latin America.

Competitive Landscape and Trends

Competitive Landscape

The level of competition is considered high in the beverages market as players compete on every element of price, promotion, product and placement. In addition, the beverage industry generally has low barriers for entry with new entrants every year. The top global beverage companies are: The Coca-Cola Company, PepsiCo, Nestlé SA, KDP and Cott Corporation (Canada-based). While KDP is one of the top 20 beverage companies globally, it operates primarily in North America and, as such, has significantly less revenue than Coca-Cola, PepsiCo and Nestlé SA. There are also significant barriers to gaining mass appeal for a beverage brand; gaining scale in distribution to reach all points of purchase is expensive and established players have significant advantage built over decades. Brand recognition is important to consumers' purchases, with the largest global brands spending significantly on advertising.

In the area of coffee specifically, the primary competitors to KDP in the single serve system include: JM Smucker, Nestlé, the Kraft Heinz Company, and Starbucks (note – this is coffee pod sales, not retail coffee shop sales where one would expect Starbucks to have significant market share). For the at-home coffee business, KDP's main competition remains traditional drip coffee brewers versus single serve machines.[55]

Trends in Product Categories

- **Coffee.** In 2018 the Coffee Production industry, in the U.S. was a $14.7B industry,[56] and globally is worth over $100 billion, with a compounded annual growth rate of 5.5%.[57] Global coffee drinkers historically skew older, with those 40 and up representing 51% of the industry.[58] However, in the U.S., coffee consumption among younger consumers is robustly increasing and coffee

[51] JAB initially took KGM private as part of its strategy to consolidate the coffee industry and reach a wide spectrum of coffee drinkers.
[52] https://www.grandviewresearch.com/industry-analysis/coffee-machine-market
[53] https://www.latimes.com/business/la-fi-dr-pepper-snapple-keurig-20180129-story.html
[54] KDP Investor Presentation, January 2018: https://www.slideshare.net/Foodsfluidsandbeyond/dr-pepper-sale-to-keurig-green-mountain-presentation
[55] KDP 10K 2018. https://www.sec.gov/Archives/edgar/data/1418135/000141813519000007/kdp-10kx12312018
[56] IBIS World Coffee Production in the US Industry Report (2019), p. 10.
[57] https://globaledge.msu.edu/blog/post/55607/the-global-coffee-industry
[58] IBIS World Coffee Production in the US Industry Report (2019), p. 10..

sourced sustainably and ethically is a growth segment driven by millennials as well.[59] Coffee has also gained popularity in tea drinking countries such as India, China, and Brazil. Another trend is marketing to industry segments like the Latino segment, which JM Smucker does through such brands as Café Bustelo. The main sales channels for coffee are wholesalers and retailers, which represent 1st tier buyers. Second tier buyers are specialty food stores, fast food restaurants and gas stations, convenience stores, and chain restaurants, etc.

Soft Drinks, Juice and Water. The global soft drink and bottled water manufacturing industry is a $228.5B industry with a profit margin of 14.8%. Its annual growth has been on a decline for the last five years with consumers' tastes evolving, moving from soft drinks to healthier drinks: "Due to growth concerns, consumers in North America and Europe have curbed their intake of sugary beverages, such as carbonated soft drinks, fruit juices and traditional sports drinks."[60] The industry experienced annual declines averaging approximately 6.5% over the period 2011 through 2016 and a small increase in 2017. Interestingly, the Organization for Economic Development (OECD) forecasts increased spending on healthcare in developing countries, which could adversely impact the sales of soft drinks as consumers become more aware of how soft drinks' high sugar content can negatively impact one's health. The industry has responded to meet evolving consumer needs with new no- and low-calorie beverages, portion-controlled packages and innovation, such as coconut water options.

- **Bottled Water.** It is also important to note that most soft drink companies have diversified to include bottled water and flavored water in their portfolio. As such, another emerging threat to their businesses is the improved quality of tap water in such countries as BRIC nations (i.e., Brazil, Russia, India and China). In more developed countries, such as the U.S., conservation and using purified tap water have also put pressure on bottled water sales, as well as concerns about the impact on the environment due to disposable plastic water bottles.

- **Sports Drinks and Other New Categories.** Sports drinks such as Gatorade and Powerade continue to be ubiquitous at sporting events. At one point, there was high growth in some of the flavored teas such as Arizona Ice Tea, Snapple, and others, but this segment has also fallen out of favor due to the beverages' high sugar content [60]. Other innovations include at-home appliances that give consumers the chance to make soft drinks or sparkling water at home; unfortunately, this concept hasn't yet been very successful in the marketplace. Other important growth areas in the beverage market include: organic beverages, healthier beverage options, super premium juices, as well as nutrient enriched water.

- **Developing Markets.** In the global beverage category, growth is anticipated to be at its highest in the BRIC nations, as well as some countries in Asia, Latin America and the Middle East. In particular, a new battle ground is emerging in Latin America and Asia, with Coca-Cola and PepsiCo being the primary competitors, now that Nestlé has stepped out of the soft drink market favoring instead its investments in snack foods. In Latin and Central America, there is continued growth and an increased appetite for soft drinks, and as such, many soft drink companies have begun global expansion and acquisition strategies into many of these developing countries. In order to have greater control of their distribution channel, Coca-Cola and PepsiCo have both purchased local bottling companies in new geographic regions as well, including further expansion in Africa, with distribution to both restaurants and retail outlets.

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[59] IBIS World Coffee Production in the US Industry Report (2019), p. 10, and http://www.ncausa.org/portals/56/pdfs/communication/nca_ncdt2017.pdf.

[60] C1124-GL Global Soft Drink & Bottled Water Manufacturing Industry Report, IBISWorld, 2019, p. 6. and C1124-GL Global Soft Drink & Bottled Water Manufacturing Industry Report, IBISWorld, 2019,

KGM's and DPSG' Sustainability Pre-Merger Stated Goals

KGM. By 2017, KGM had released its twelfth annual sustainability report with updates on three key pillars*: Coffee, Earth*, and *Community*, described in greater detail as follows.

- *Coffee*. KGM's coffee sustainability efforts were focused on social and environmental sustainability in their supply chain. By 2017, 85% of their purchased beans were traceable back to an exporter, mill, group, or farm with a goal of reaching 100% responsibly sourced coffee by 2020 (note: traceability is the first step in establishing supply chain transparency and measurement). To further strengthen connections with its coffee supply chain, KGM sent ~60 employees each year from various departments to meet coffee growers in locations such as Nicaragua, Brazil, Mexico, and Costa Rica. KGM engaged with its growers in other ways, too, such as addressing local water issues and strengthening farmer organizations. In 2017, for example, KGM invested $626,000 with Root Capital to provide financing and advisory services to farmer cooperatives, resulting in improved operations and better resiliency to climate change. KGM's responsibly sourced standards also extended to its appliance suppliers; the Supplier Relationship Management (SRM) program regularly rated suppliers on a scorecard which included sustainability metrics. Once suppliers were evaluated, KGM worked with them to create continuous improvement plans, if necessary. KGM showcased another example of working with its equipment suppliers by holding an annual Quality and Manufacturing Summit to create a forum for discussions on quality, manufacturing, engineering, and responsible sourcing.

  1) *Earth*. KGM's commitment to environmental responsibility included: reducing GHG emissions, transitioning to 100% renewable energy, achieving zero manufacturing waste to landfill, protecting and restoring natural watersheds, and producing 100% recyclable K-Cup pods by 2020. Some metrics were achieved early, including a 25% reduction in GHG emissions and 100% production of recyclable K-Cup® pods in Canada. The 2020 water stewardship goals were also met three years early; by partnering with The Nature Conservancy and others, KGM improved the quality and availability of more than 1,625 million gallons of water. By 2017, KGM's manufacturing waste goal was also nearly achieved, with 98% of waste diverted from landfills. KGM's recyclability goal embraced the circular economy. The original K-Cup® pod was made with various plastics and classified as a #7 plastic, which had limited recyclability. KGM explored a biodegradable K-Cup® pod, but it did not meet the quality and safety standards needed for the Keurig system. Therefore, KGM had to redesign the pod to use a highly recyclable plastic - polypropylene (#5) - and pioneered RFID technology in testing that proved that the filter paper attached to the container wasn't a problem for recovery and recycling and that the pods were not too small to be recovered in recycling facilities. KGM further identified the right recycling instructions to ensure grounds were emptied from the pod prior to recycling non-organic components.

- *Community*. KGM was committed to community and employee engagement through employee volunteerism, as well as monetary and product donations. For example, KGM's *Community Action for Employees* (CAFE) program gave every full-time employee 52 hours of paid volunteer time each year and every part-time employee 25 hours for any local program the volunteers chose to support. As of September 2015, KGM's employees had volunteered for over 6,000 hours in local communities, exceeding a prior year record by over 45%. To amplify employee efforts, KGM also provided up to $1,000 that employees could use to have their donations matched one-for-one, or KGM provided a one-time $250 donation to organizations where an employee had volunteered at least 25 hours outside of their CAFE time. Beyond employee volunteerism and contribution, KGM provided sponsorships and donated products to local non-profit organizations. For example, in 2017, KGM partnered with

Purple Heart Homes to help renovate kitchens for veterans who were disabled while serving their country. In addition to giving the organization a $50,000 donation, KGM designed and outfitted a coffee corner for the renovated kitchens — complete with a Keurig coffee maker and K-Cup® pods. They also provided special commitments to organizations including a national relationship with *Keep America Beautiful* and local relationships like those with Vermont's Intervale Center's Allen Brook and Muddy Brook initiatives, involving tree planting and water stewardship. For corporate governance and employee development, KGM developed and published its own Code of Ethics.[61]

DPSG. Unlike KGM, DPSG had commissioned its first materiality assessment by a third-party consultant just prior to the merger and had yet to incorporate all of the report's stated recommendations. The DPSG 2017 sustainability report, titled *We Do Good Things with Flavor*, covered environmental sustainability, workplace, health and wellness, ethical sourcing, and philanthropy. Each of these are described in more detail below:

- *Environmental Sustainability*. DPSG identified three categories where the firm focused the bulk of its environmental reporting: (1) climate change and energy use, (2) water use and stewardship, and (3) waste and packaging. In 2011, DPSG set a baseline for electrical usage of 0.17 kwh per gallon of finished product, with a goal to achieve a usage rate of 0.15 kwh per gallon of finished product by 2015. To meet those goals, DPSG installed energy-efficient lighting and improved lighting control and converted refrigeration systems from ammonia-reliant systems to more environmentally friendly glycol-based systems. However, declines in production volume offset efficiency gains such that progress against this goal had remained essentially flat by 2017. Water was the primary ingredient in DPSG's beverage products, and as such, DPSG set a goal to reduce water consumption by 10 percent of finished product. By 2017, DPSG's progress had been flat to negative as a result of production volume changes and improvements to inventory management processes that required more frequent changeovers of manufacturing lines. To offset this setback, DPSG developed a major partnership with The Nature Conservancy to take their focus on water beyond their operations to the watersheds in their communities. DPSG had made consistent progress in its waste and packaging goals, achieving 85% recycled manufacturing waste in 2016. DPSG's bottles were made from recyclable plastic, but in order to improve post- consumer bottle recycling, DPSG recognized that the lack of recycling infrastructure in the U.S. was the greatest barrier to achieving DPSG's recycling goals. To that end, DPSG announced a goal to work with other industry players, governmental agencies, and community partners to achieve a U.S. beverage container recycling rate of 60 percent by 2030. In support of that goal, DPSG committed to partnerships with Keep America Beautiful and the Closed Loop Fund in 2016.

- *Health and Wellness.* As a producer of soft drink beverages and other sweetened beverages, health and wellness was a challenging area for DPSG, not only in its ability to improve its ESG ranking but also in the marketplace where consumer trends were changing toward healthier drinks. In 2010, DPSG set a goal to keep at least 50 percent of the innovation projects in their pipeline focused on reducing calories, offering smaller sizes, and improving nutrition. Some examples of their activities included adding a variety of flavors to the Canada Dry zero-calorie sparkling water brand, adding Rooibos and Honey Green varieties to Snapple's line of Straight Up Teas with three levels of sweetness and "no artificial anything," while also growing their water category with their newest brand Bai and its then allied brand FIJI. Outside of its own products, DPSG co-founded the *Balance Calories Initiative* - a national, multi-year effort by America's leading beverage companies and the *Alliance for a Healthier Generation* to help fight obesity by reducing beverage calories consumed per person nationally 20 percent by 2025. Finally, DPSG began promoting a message of "Find Your Balance, Find Your Flavor" and advancing through advertising, education, portion-controlled sizes, and strategic in-store product placements to encourage consumers to reduce their portion sizes.

- *Philanthropy*. DPSG's philanthropic platform, ACTION Nation, included volunteerism and donations for efforts across fit and active lifestyles, environmental initiatives, and hometown giving. Since their last responsibility report, DPSG had given $17.7 million in cash donations in support of its philanthropic goals, with an additional $6 million in in-kind product donations, and $4.5 million in cause marketing. Under ACTION Nation, DPSG launched the *Let's Play* initiative and by 2017 had achieved their goal of providing 10 million children across North America with new opportunities to play and be active. DPSG had done so by renovating 2,500 playgrounds, providing sports equipment to 680 organizations, and engaging more than 80,000 DPSG volunteers in playground builds in U.S., Canada, and Mexico. DPSG was named a Civic 50 company for six years in a row from 2012-2018 by the Points of Light Foundation, joining a distinguished group of the most community-minded companies in the United States, acknowledged for corporate citizenship and caring for their communities.

- *Ethical Sourcing.* In 2016, DPSG published a new Supplier Code of Conduct that outlined expectations for suppliers to act in a professional, ethical, and legal manner in all of their dealings. Some of DPSG's requirements had been in place for years; for example, suppliers would still commit to use employment that is freely chosen (i.e. no slave labor), that they maintain safe and hygienic working conditions, that wages and benefits meet minimum applicable legal standards, etc. The Code of Conduct goes further by also requiring environmentally sound practices, that sourced materials are not composed with Conflict Minerals, that rigorous safety and quality standards are applied, and that all products are marketed responsibly. Within 1 year, 99% of DPSG's direct suppliers had signed the new Supplier Code of Conduct.

A side by side comparison of each company's commitments pre-merger can be found on **Exhibit 7**.

Combined Goals for KDP

A key challenge for Oxender and her team, post-merger, was to align initiatives across both organizations and set a quantitative baseline across all parts of the organization, while ensuring leadership buy-in to do so with the company still operating under a significant amount of debt[62] due to the merger. As a combined company, Oxender emphasizes: "…corporate responsibility is a strategic priority and embedded into our integration efforts in operations, our communities and throughout our value chain."[63] For a current organization chart of KDP's sustainability efforts, see **Exhibit 1**.

Materiality Analysis

To develop consolidated sustainability goals, Oxender considered applying a materiality assessment framework. In the context of sustainability, a materiality assessment is an exercise in stakeholder engagement designed to gather insight on the relative importance of specific ESG issues. The assessment helps make decisions on what to measure and report to stakeholders but also where to focus investments in sustainability, through a better understanding of business risks and opportunities related to sustainability.

While there are different ways to develop a materiality analysis, the steps are as follows: The organization identifies potential sustainability issues that are most relevant and then uses two criteria to prioritize them. The first criteria is identifying the issue's potential of positively or negatively impacting KDP's business

[63] Based on an interview with Ms. Oxender conducted on May 19, 2020.

success, while the second criteria represents the importance of each issue to stakeholders. The result is a visual representation of which issues are prioritized according to their importance to both the company's success and stakeholders' expectations.

Because sustainability issues tend to be common within one industry, some organizations are providing guidance on what issues should be considered material at the industry level. For example, the Sustainability Accounting Standards Board (SASB), a non-profit organization that develops sustainability accounting standards, provides a materiality map with 26 sustainability issues that are likely to affect the financial condition or operating performance of companies within that industry.[64] In the Food and Beverage Industry, SASB identifies the following issues as those that are likely to be material for more than 50% of the firms in the sector: GHG Emissions, Energy Management, Water & Wastewater Management, Product Quality & Safety, Customer Welfare, Selling Practices & Product Labeling, Product Design & Lifecycle Management, Supply Chain Management, Materials Sourcing & Efficiency.

By 2018, most KDP competitors in the food and beverage industry had developed their own materiality analyses. For example, Coca-Cola's latest materiality map was issued in 2018 (see **Exhibit 8**).[65] To prioritize the issues, Coca-Cola considered a large array of stakeholders including bottling partners, consumers, suppliers, industry, employees, media, investors, government, NGOs, as well as disclosure organizations. The recommendations are then organized into a graph the company calls a "priority issues matrix." The X-axis includes "current or potential impact to the Coca-Cola System," and the Y-axis represents "concern to stakeholders." Concerns like manufacturing waste, responsible supply chain management, energy efficiency, and so on are organized on the plane given their significance in these two regards. The most significant issues for both stakeholders and the Coca-Cola system are obesity concerns and category perceptions, water stewardship, and packaging. Water resources is the most important environment issue highlighted in the materiality analysis. Because water resources are threatened by pollution and scarcity, which is exacerbated by climate change, Coca-Cola considers this a primary concern. Packaging is the second most important environmental issue identified. Changes in local regulations and cost of plastic production were posing threats to Coca-Cola, so they started looking into alternatives like circular models of plastic production.

Nestlé's 2018 materiality analysis was based on 17 material issues organized into three main categories of stakeholders: individuals and families, communities, and the planet (see **Exhibit 9**).[66] This is in line with Nestlé's shared value approach, where Nestlé seeks to create value for shareholders as well as for the individuals and families who purchase their products, the communities where they operate, and the planet.[67] In addition, Nestlé conducted an analysis of 17 material issues for each of the elements of their value chain (e.g. agriculture, tier one suppliers, Nestlé operations, retail business channels, and consumers).[68] The results of this analysis prioritized nutrition, water stewardship, and the primacy of food. This analysis further concluded that these three issues have a significant relationship to Nestlé's business success. For example, some of these issues are essential for protecting and growing Nestlé's revenues, while others have significant influence on the company's cost structure, supply chain, and risk. Finally, many of these issues could impact Nestlé's reputation among customers and important stakeholders, even if this is somewhat intangible to measure.

As another example, Danone organized the topics of its materiality map into levels of importance along a matrix where the X-axis is "impact on Danone's business success" and the Y-axis is "importance to Danone's external stakeholders" (see **Exhibit 10).** Topics are further organized by category: "local economy," "governance and strategy," "supply chain," and "consumer engagement/product

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[64] https://materiality.sasb.org/
[65] https://www.coca-colacompany.com/content/dam/journey/us/en/policies/pdf/safety-health/coca-cola-business-and-sustainability-report-2018.pdf
[66] https://www.nestle.com/csv/what-is-csv/materiality
[67] Porter, M. and Kramer, M., "Creating Shared Value" Harvard Business Review, Jan-Feb 2011 issue.
[68] https://www.nestle.com/sites/default/files/asset-library/documents/creating-shared-value/our-material-issues-across-the-value-chain.pdf

responsibility." Those considered to be of highest significance are given the most priority. Top concerns included product safety and quality ("consumer engagement/product responsibility"), integration of sustainability into the business ("governance and strategy"), healthier products ("consumer engagement/product responsibility"), and sustainable sourcing of raw materials ("supply chain"). Danone claims to utilize its top priorities in working toward the company's "One Planet. One Health." vision, to encourage consumers and producers to focus on sustainable and wholesome habits.

The Global Reporting Initiative (GRI) provides some useful guidelines on how to conduct a materiality assessment.[69] To comply with GRI guidelines, an organization is required to identify material topics by considering the two dimensions of the principle: (1) the significance of the organization's economic, environmental, and social impacts – that is, its impact on the economy, environment or society, and (2) the company's substantive influence on the assessments and decisions of its stakeholders. A topic can be material if it ranks highly for even just one dimension of the Materiality principle. While there is a strong link between materiality and strategy, the GRI guidance focuses on what to report on, not on what specific goals are, or the strategy to achieve them. Some have pointed out that "when organizations use a materiality assessment to guide strategy, the criteria for what is getting prioritized may get mixed up."[70] Indeed, from a reporting standpoint, organizations aligning with GRI will want to prioritize topics based on the biggest impacts to their organizations and the most important influencers to a company's stakeholders. For example, current employees, NGOs, and investors are important considerations in a stakeholder map. However, from a strategy development perspective, the objective is to put the emphasis on what an organization can and should do.

Conclusion

As Oxender looked down at her morning coffee, she began contemplating how a comprehensive and cohesive materiality analysis could be the first step toward developing specific and measurable goals for the newly combined company. Such an assessment could serve as decision criteria from which organizational sustainability goals could then be shaped. Such goals could also provide something specific for KDP to aim for and communicate with its stakeholders on. According to Oxender: "…an analysis needed to quickly focus on priorities, goals and action-based strategies as well as KDP's ability to influence change and progress to goals. We needed to urgently move from commitment to action, taking into account existing commitments and progress from both companies to move forward as a combined KDP."

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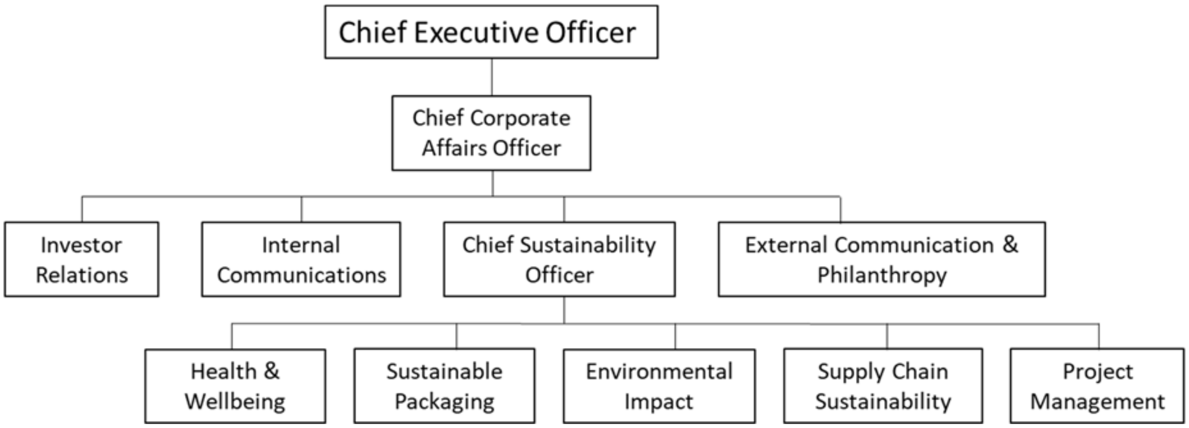
[69] https://www.globalreporting.org/resourcelibrary/GRI-DefiningMateriality2016.pdf
[70] https://www.greenbiz.com/article/how-make-your-materiality-assessment-worth-effort

Case Discussion Questions

Use the issue mapping tool Excel file provided to you to conduct a materiality analysis on KDP by comparing each issue's potential impact on business vs. its importance to stakeholders, and answer the following questions:

1. Over the next five years, what are the **top 3 material issues** you recommend that KDP focus on? Please provide a rationale for the top three issues, as determined by you and/or your team.
2. How does your recommendation change if you map issues based on **Time & Control instead of Impact on Business?**
3. What are some of the challenges that might serve as barriers to KDP achieving your recommended goals?
4. Broadly speaking, what other market and consumer trends should KDP address in its product line as it embraces ESG metrics?

Exhibit 1 – 2019 KDP Sustainability Organizational Chart



Source: *KDP organization chart, as provided by the company.*

Exhibit 2 – KDP Post Merger 2018 Highlights

- Successfully completed merger of Dr Pepper Group, Inc. (DPS) and Keurig Green Mountain, Inc. (KGM) on July 9, 2018.
- Delivered financial performance in line with the merger targets communicated in early 2018.
- Drove strong in-market performance and market share growth for carbonated soft drinks (CSDs), single serve coffee and other key beverage categories.
- Repaid $938 million of bank debt since merger close, due to strong operating profit results and ongoing effective working capital management, reducing management leverage ratio by a half turn to 5.4 times.
- Acquired CORE®, a rapidly growing premium enhanced water brand, and Big Red, a strong regional CSD brand.
- Entered into a long-term partnership with Danone Waters of America to sell, distribute and merchandise evian®, the leading global brand of premium natural spring water, across the U.S.
- Expanded relationships with Peet's, a premium specialty coffee company, for ready-to-drink coffee, and FORTO®, a rapidly growing brand of coffee energy shots and beverages.

Source: KDP 2018 Annual Report.

Exhibit 3 – Top Beverage Companies by 2018 Sales

Company Name	**HQ Location**	**Product Categories**	**2018 Revenue (US $M)**
Anheuser-Busch	Europe	Beer, Hard Cider, Flavored Malt Beverages	$ 54,619
Nestlé SA	Europe	Coffee, Water, Juice/Juice Drinks, RTD Tea/Coffee, Energy Drinks, Sports Drinks, Dairy-based Drinks, Beverage Mixes, Liquid Concentrates	$ 38,737
The Coca-Cola Company	U.S.	Soft Drinks, Water, Sports Drinks, Juice/ Juice Drinks, RTD Tea/Coffee, Liquid Concentrates, Dairy-based Drinks	$ 31,856
PepsiCo Inc.	U.S.	Soft Drinks, Sports Drinks, Water, Energy Drinks, Juice/Juice Drinks, RTD Tea/Coffee	$ 29,744
Heineken NV	Europe	Beer, Hard Cider, Spirits, Wine, Soft Drinks	$ 25,115
Suntory Holdings Ltd.	Asia	Beer, Juice/Juice Drinks, RTD Coffee/Tea, Soft Drinks, Spirits, Wine	$ 22,844
Starbucks Corp.	U.S.	Coffee, RTD Tea/Coffee, Juice/Juice Drinks, Tea, Water	$ 19,690
Diageo PLC	UK	Spirits, Wine, Beer, Flavored Malt Beverages	$ 15,853
Unilever Group	UK	Tea, RTD Tea, Coffee	$ 12,784
Molson Coors Brewing Co.	U.S. /Canada	Beer, Flavored Malt Beverages	$ 10,770
Pernod Ricard	Europe	Spirits, Wine	$ 10,044
Constellation Brands	U.S.	Beer, Wine, Spirits	$ 7,585
Keurig Dr Pepper	U.S.	Soft Drinks, Water, Juice/Juice Drinks, RTD Tea, Energy Drinks, Dairy-based Drinks	$7,442*
Red Bull GMBH	Europe	Energy Drinks	$ 7,297
Bacardi LTD	Bermuda	Spirits	$ 6,278
LVM Möet Hennessy * Louis Vuitton	Europe	Spirits, Wine	$ 5,748
Jacobs Douwe Egberts	Paris	Coffee, Beverage Mixes, Tea	$ 5,226
Danone Group	Paris	Water, Dairy-based Drinks	$ 4,972
The Wonderful Company	U.S.	Juice/Juice Drinks, Water, Wine	$ 4,620
E. J. Gallo Winery	U.S.	Wine, Spirits	$ 4,495

Source: *Beverage Industry (https://www.bevindustry.com/top-100-beverage-companies-2018-chart).*

**The revenue number in this ranking is lower than overall company revenue numbers, perhaps due to consolidated earnings not being available at the time of this ranking. 2018 combined revenues for KDP were actually $11,024mm, moving it up to rank just below Unilever Group.*

Exhibit 4 - Competitive Landscape

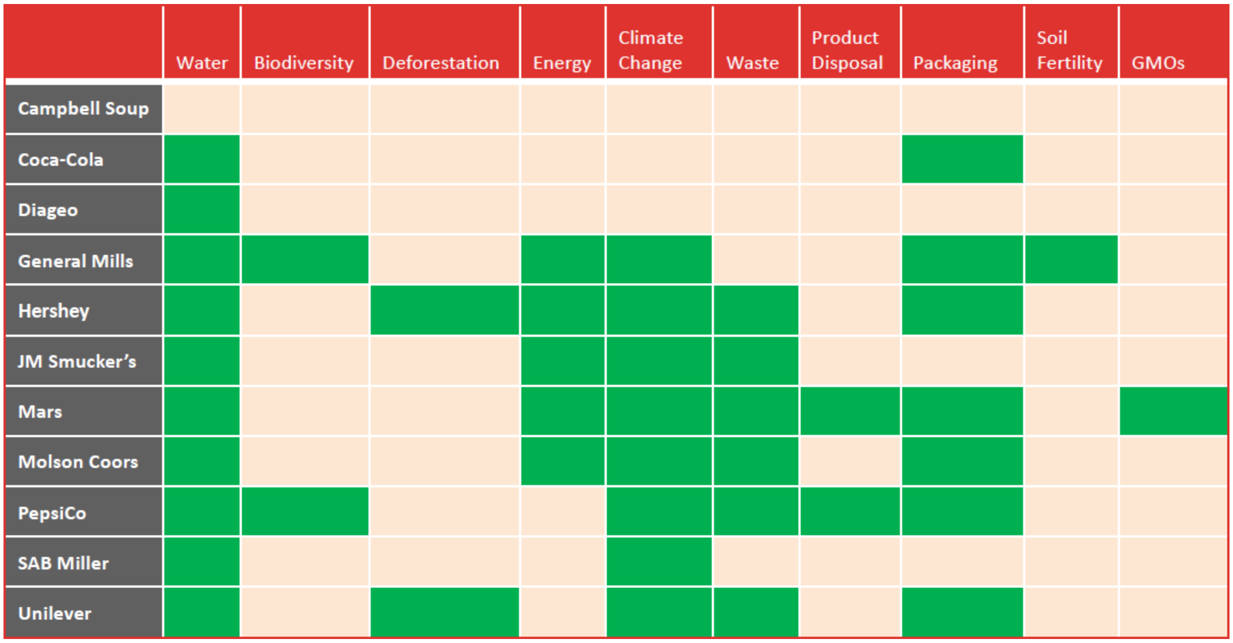
Competitor	**Categories**
PepsiCo	CSDs, NCBs
Coca-Cola	CSDs, NCBs
Monster Energy	CSDs (Energy)
Red Bull	CSDs (Energy)
The Campbell Soup Company	NCBs (Juice)
Ocean Spray Cranberries	NCBs (Juice)
Welch's	NCBs (Juice)
Nestlé SA	NCBs (Water), Packaged Coffee
The Kraft Heinze Company	Packaged Coffee
The J.M. Smucker Company	Packaged Coffee

CSDs: Carbonated Soft Drinks

NCBs: Non-Carbonated Beverages

Source: *KDP 2018 Annual Report*

Exhibit 5 –Environmental Issues Identified as Most Material Impact by Companies



Most material impacts

Source: *Setting Strategic Environmental Goals*, 2017 (based on publicly available company reporting).

Exhibit 6: KDP Brands

Category	Major Brands	North America Market Position
CSDs	Dr Pepper	#1 in its flavor category and #2 overall flavored CSD in the U.S.
	Canada Dry	#1 ginger ale in the U.S. and Canada
	Squirt	#1 grapefruit CSD in the U.S. and leading in Mexico
	Peñafiel	#1 carbonated mineral water in Mexico
	Sunkist soda	#1 orange flavored CSD in the U.S.
	Crush	#3 orange flavored CSD in the U.S.
	7UP	#2 lemon-lime CSD in the U.S.
	A&W	#1 root beer in the U.S.
	Schweppes	#2 ginger ale in the U.S. and Canada
NCBs	Snapple	#2 premium shelf stable ready-to-drink tea in the U.S.
	Hawaiian Punch	#1 branded shelf-stable fruit punch in the U.S.
	Mott's	#1 branded multi-serve apple juice and apple sauce in the U.S.
	Clamato	A leading spicy tomato juice in the U.S., Canada and Mexico
	Bai	#3 enhanced water in the U.S.
Single Serve (Coffee)	Green Mountain	#2 K-cup pod in the U.S.
	The Original Donut Shop	#5 K-cup pod in the U.S.
	Van Houtte	#2 K-cup pod in Canada
Single Serve Brewing	Keurig	#1 single serve brewing system in the U.S. and Canada

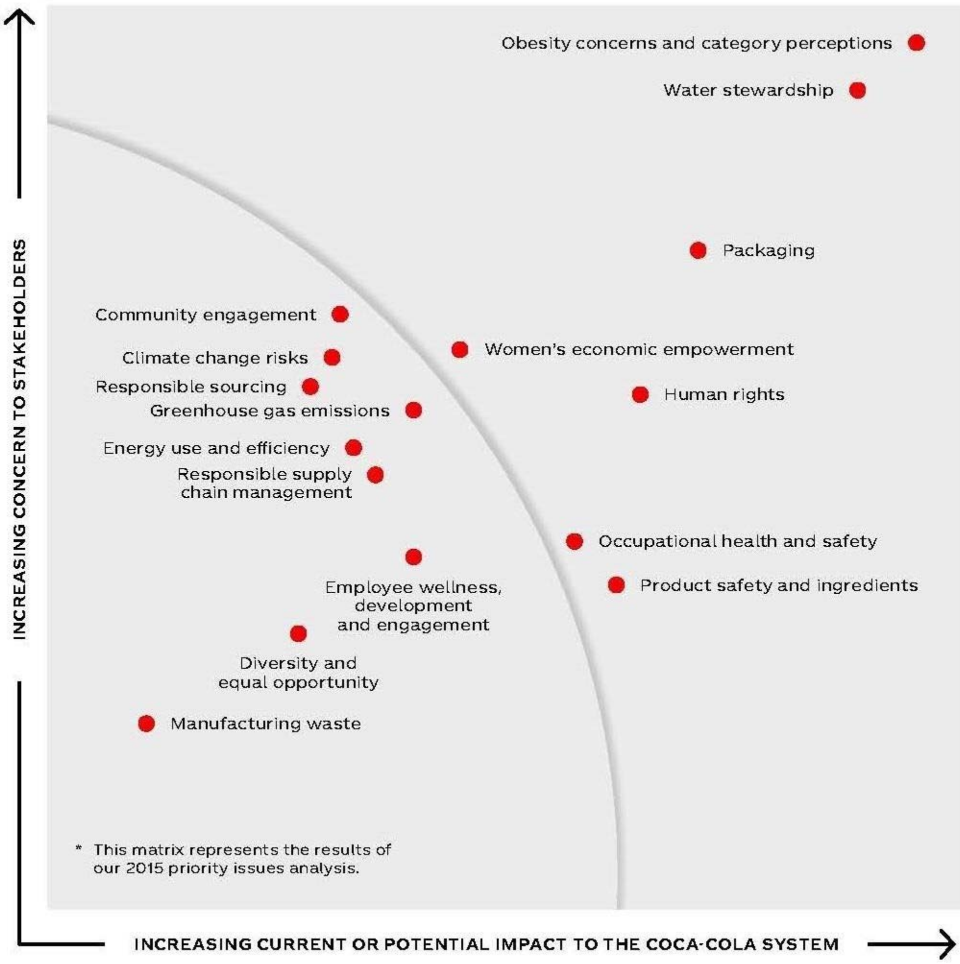
Source: *KDP 2018 Annual Report*

Exhibit 7 DPSG/KGM Goals

Pillar	**KGM**	**DPS**
Environment	By 2020: • Committed to reducing lifecycle GHG emissions of brewed beverages by 25% compared to a 2012 baseline (achieved in 2016) • Restore 100% of water used in our brewed beverages (achieved in 2017) • Achieve zero waste to landfill	• Achieve an electrical usage rate of 0.15 kWH/gallon of finished product by 2015 • Increase product shipments/gallon of fuel used by 20% • Ensure 100% of DPS's 3rd party freight providers are active members of the EPA's SmartWay Program by 2025 • Reduce water consumption by 10% to achieve 1.77 gallons/gallon of finished product • Zero waste to landfill from all manufacturing operations in US and Mexico by 2025
Packaging	• Make 100% of K-Cup pods recyclable by 2020	• Achieve US beverage container recycling rate of 60% by 2030 (industry target through the American Beverage Association)
Supply Chain	By 2020: • Engage 1 million people in our supply chain to improve their lives • Responsibly source 100% of our coffee and brewers	
Health & Wellness		• Keep 50% of new products focused on reducing calories, offering smaller sizes and improving nutrition • Reduce beverage calories consumed per person nationally by 20% by 2025 (industry target through the American Beverage Association)
Employee Engagement	• Engage 100% of our employees in our vision and values by 2020	
Philanthropy		• Provide 10 million children in North America with opportunities to play and be active by 2017. (achieved in 2017)

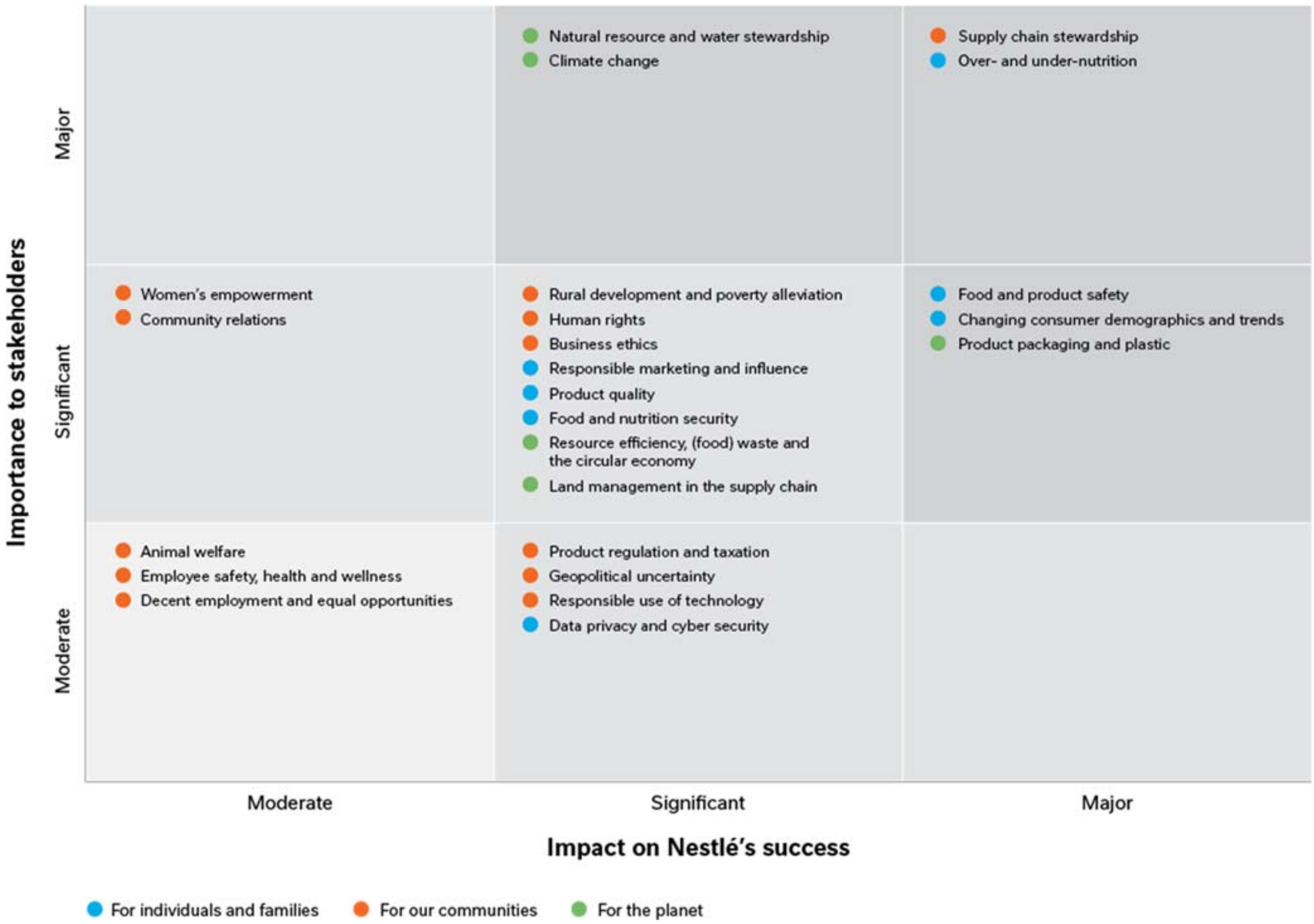
Source: *2017 DPSG and KGM Sustainability Reports.*

Exhibit 8 Coca-Cola Priority Issues Matrix[71]



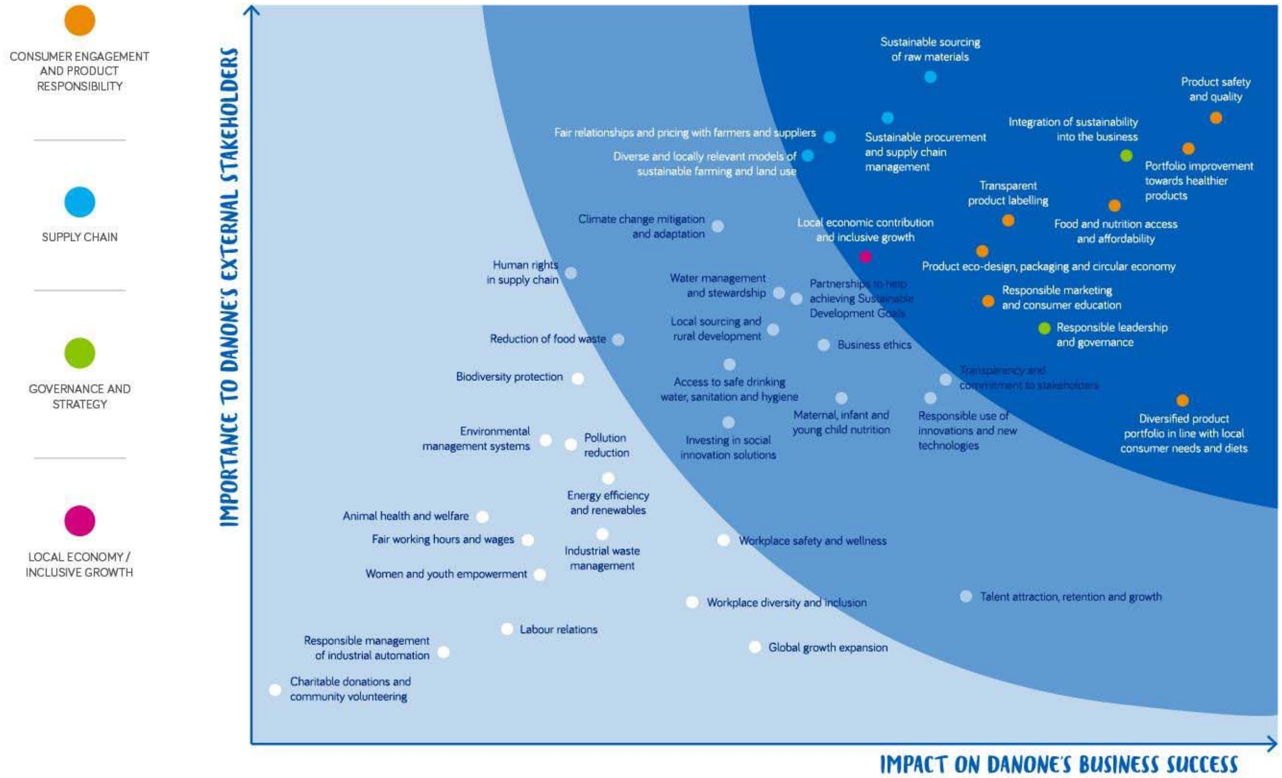
[71] https://www.coca-colacompany.com/content/dam/journey/us/en/policies/pdf/safety-health/coca-cola-business-and-sustainability-report-2018.pdf

Exhibit 9 Nestlé materiality matrix (as assessed in 2018)[72]



[72] https://www.nestle.com/csv/what-is-csv/materiality

Exhibit 10 Danone 2018 Materiality Matrix[73]



[73] https://iar2018.danone.com/performance/materiality-matrix/